

## How to energize the energy sector?

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Alongside with other interesting Ukrainian trends there is a phenomenon that has gained prominence lately and may claim to be a distinguishing feature of contemporary decision-making. Economic issues, in the energy branch as well as in other sectors, have been consistently extrapolated to the sphere of politics, uneasy relations and conflicting interests of selected political personalities and groups. The intrigue in the government's energy sector and controversy over the ways to reform the ailing industry seem about to culminate.

The fight of energy giants - members of the Cabinet of Ministers of Ukraine, Vice Prime Minister for Fuel and Energy Issues Yulia Tymoshenko and Minister of Fuel and Energy Serhiy Tulub, is not over with the latter's resignation last week. Many observers tended to see the resignation as the forecast of the end of the governmental crisis heated up by problems of the energy sector. Yet, it is probably more adequate to regard Serhiy Tulub's resignation as yet another wave of the complex spiral bringing economic problems to the field of lasting political contradictions that guarantee a bad 'energy headache to the government.

On June 15, 2000, Minister of Fuel and Energy Serhiy Tulub explained his decision to resign by his inability to continue working in an aggressive atmosphere around him personally and the ministry in general, and to perform the tasks, given to him by the President. According to Tulub, his decision to resign was caused by his disagreement with the government's actions that could result in a massive crisis of the fuel and energy branch. He added that proposals of the Ministry's experts concerning ways to save the fuel and energy branch had been ignored by the superior officials in charge of decision-making on the government's actions. We had urged the government about critical issues of the [fuel and energy complex], but our proposals had been ignored for months and implemented belatedly, if at all, the minister complained to the press. At a press conference, called on the day of his resignation (that was also the day of the parliamentary hearings on energy issues), he argued that indifference of the top government officials to his ministry's initiatives had resulted in dramatic increase of tension and strikes in the mining areas, and that the situation had been partly improved only after the President intervened. (Ukrainska Pravda, June 15, 2000)

Serhiy Tulub gave way to his criticism of the operational style and general views of his immediate boss, Vice Prime Minister for Fuel and Energy Issues Yulia Tymoshenko and publicly disagreed with the government's actions in the energy branch. He was particularly critical about Mrs. Tymoshenko's concept of regulating the wholesale energy market and argued that despite the pro-market rhetoric her actions could be described as administrative (Ukraina Moloda, June 16, 2000).

Yulia Tymoshenko did not miss the opportunity to add her comments to the conflict. She described Tulub's resignation as the beginning of normalization of the government's work in the fuel and energy complex (Den, June 16, 2000) and a decent action of a person who had failed to perform his duties in a proper way (Den, June 16, 2000). The comments reflected a rapid change in their relations: in January 2000, commenting on the prospects of cooperation with Tulub, she announced that I would like to work with Tulub and not to ruin the straight vertical line. I believe we will work together well. This man can work very effectively and with high quality, (Zerkalo Nedeli, January 15, 2000). However, things keep changing... The tentative team cooperation has failed. After a short while it became obvious that the government's two top energy officials had different perspectives on ways to reform the energy sector, and different agendas to promote.

On June 12, 2000, the Ministry of Fuel and Energy presented its program of countering the forthcoming deterioration of the energy crisis to the President and the government of Ukraine. The program contained a number of proposals for improving the situation, including urgent establishment and development of regional fuel and energy companies that would include thermal energy generating plants, regional electricity distributing companies, coal producers and investment companies. The Ministry of Fuel and Energy planned to allow electricity consumers to pay their debts by promissory notes that energy distributing companies could later sell for money. However, Yulia Tymoshenko had her own idea of a new electricity payment scheme, based on direct payments by electricity consumers to electricity generating companies and creation of regional payment centers.

The deeper was the crisis in the branch, the deeper was the confrontation between the two top-ranking government officials in charge of the energy branch. Notwithstanding repeated claims that reforms in the branch were about to take root, the situation in Ukraine's fuel and energy complex continued to

deteriorate. Since March 2000, observers have expected the President to dismiss either the Vice Prime Minister or the Minister of Fuel and Energy. However, none of them was prepared to go quietly, and Yulia Tymoshenko publicly stressed that she was not going to resign in her own free will under any circumstances. I know that if I continue working ... [I] will be able to do something, she argued (Fakty i Kommentarii, April 7, 2000). President Kuchma's public comments added to the intrigue in early April, when he publicly expressed anxiety over the situation in the fuel and energy branch and announced that the Ministry [of Fuel and Energy] does everything possible to improve the situation with the energy branch (Zerkalo Nedeli, April 8, 2000). The words sounded like a logical amnesty to Serhiy Tulub. Instead, the prospects for Yulia Tymoshenko were increasingly unfavorable.

The alarm signal switched on when the president publicly strongly criticized Vice Prime Minister Tymoshenko at the government's open session on April 19, 2000. Prior to the session, many observers suggested that it would be the X-day for Tymoshenko and argued that her career in the government was doomed. The President pointed out to extremely dissatisfactory work of the country's fuel and energy complex and added he did not understand the optimism demonstrated in Mrs. Tymoshenko's report. The situation has approached the critical threshold, he said and added it was practically by miracle that Ukraine's integrated energy system was saved from collapse (Den, April 19, 2000). However, notwithstanding the shower of criticism, Yulia Tymoshenko managed to keep her position in the government. While having a chance to leave nicely and join the by-election race for the parliament to be completed on June 25, 2000, she preferred not to use the chance. Her decision not to run meant she had good reason to be confident about her future career in the government and did not want to give up. However, no matter what more substantial reasons allowed her to keep the seat, nothing so far has been done to inspire optimism about prospects for overcoming the energy crisis.

On June 8, 2000, President Leonid Kuchma, speaking at a meeting on issues of the fuel and energy complex and analyzing the situation in the branch, said: I cannot recall the things to go that badly within the past decade. This is an unprecedented fact: during the summer time the country's integrated energy system is working at the edge of its capacity, with the last resources. This never happened before. That is why I have to intervene in the issues that must be dealt with by the government (Uriadovi Kurrier, June 10, 2000). However, the President announced he was not going to raise the issue of staff changes, as the objective of the meeting was to find out what exactly was going on in the fuel and energy complex and develop steps for overcoming the crisis.

Day after day, it became increasingly clear that one of the government officials in charge of the energy sector would have to go. Symptomatically, Minister Tulub announced his resignation on the day of the parliamentary hearings on the energy crisis. On the eve of the hearings, it still had not been decided who of the two would report to the parliament, though it was crucially important both for Tulub and Tymoshenko to be able to speak and, hence, convey his or her views on the issue. The final decision was made by Prime Minister Victor Yushchenko who, as the press wrote the next day, chose Vice Prime Minister for Fuel and Energy Complex Yulia Tymoshenko, thus, having finally demonstrated his orientation points in the energy debate that has been corroding the government (Den, June 16, 2000). Meanwhile, outside the political context, the parliamentary hearings confirmed the general opinion about the current situation in the energy sector as catastrophic for the entire energy generation and distribution system. According to chairman of the parliamentary Committee for the Fuel and Energy Complex, Nuclear Policy and Nuclear Safety Oleksandr Hudyma, the current circuit data are disastrously low. So far, only one method has been used to improve the situation: massive cut-down of electricity supply to consumers. The measure, naturally, has a strongly negative effect on Ukraine's industrial production as well as on the public opinion, and may soon become one of the strongest arguments of critics of the government of young reformers.

Speaking to the parliament, Yulia Tymoshenko decided not to counter numerous critical statements about the situation in the energy complex. Analyzing the reasons for the ongoing crisis in the branch, the Vice Prime Minister argued it had been mainly created by the fact that inaction of nuclear power plants had to be compensated for by excessive spending of organic fuel at thermal electricity generating plants. According to Tymoshenko, the current energy crisis was caused by consumption of 37.4 billion of cubic meters of gas instead of 32 billion cubic meters in 1999. Therefore, she argued, in 2000 Ukraine could expect to receive only 25 billion cubic meters of gas. Moreover, for the first time since independence, Ukraine will not receive any gas as payment for transportation of gas through the Ukrainian territory, for it consumed some extra gas last year. Commenting on the situation in the branch, Yulia Tymoshenko emphasized the non-payment problem. She argued that only 29% of the amount due had been actually paid in May 2000. She also expressed her attitude to privatized regional energy distributing companies by arguing that the state-owned energy companies were far more disciplined in delivering payments than the private ones. According to Yulia Tymoshenko, within the initial five months of 2000 the total debt of privatized energy distributing companies to the budget had

reached UAH 1,155 million. To cope with the situation, she proposed to amend the law On Electric Energy so that to ensure more state control over electricity production and distribution (Holos Ukrainy, June 16, 2000).

The parliamentary hearings produced a traditional result by developing recommendations for improving the situation in the branch. Specifically, the recommendations included completing construction of the oil terminal in Odessa and the Odessa-Brody pipeline; launching a technology of developing an incomplete nuclear fuel cycle, drafting a strategy of development of the energy sector till the year of 2030; drafting bills On Key Foundations of Energy Policy of Ukraine , On State Management of Objects of the Energy Industry , On Oil and gas , and amendments to the bill On Electric Energy (Holos Ukrainy, June 16, 2000). However, implementation of the recommendations requires much effort and time, and currently both are insufficient to stabilize the situation in Ukraine's fuel and energy complex.

As the logic of events suggests, Serhiy Tulub's resignation allows to blame all energy problems on the Ministry of Fuel and Energy and its ex-Minister. However, this is only a small upper part of the iceberg of the current energy crisis and its political aspects. Although one may think that Yulia Tymoshenko has won this difficult multi-level game, it looks like the current situation is just the beginning, and she is definitely not the main winner. Not just because Yulia Tymoshenko may follow Serhiy Tulub and have to resign from the government. More likely, this is not going to happen soon, at least not before the current leadership of the Cabinet is officially in charge of pursuing reform. Yulia Tymoshenko's situational victory has an important side effect. Serhiy Tulub's resignation and further deterioration of the energy branch raise the issue of personal responsibility for the growing economic problems. Commenting on Serhiy Tulub's resignation, President Leonid Kuchma made it clear that it would be Prime Minister Victor Yushchenko who would have take responsibility for the crisis and its implications. Let them in the government, the Prime Minister first of all, think that now he will have to take personal responsibility for everything, for the energy branch that has been driven to such a condition today. (Zerkalo Nedeli, June 17, 2000). Hence, Yulia Tymoshenko's situational victory may turn out to be rather disastrous, as well as the Prime Minister's choice in favor of his Vice Prime Minister for Fuel and Energy, for his personnel policy and the energy crisis may be effectively used by his opponents. And as the autumn draws near and energy cut-offs become more often, Yushchenko's opponents may find increasing number of supporters among those who oppose the government's reforms and those who think the reform chance is being wasted.